

Message Text

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ACTION OPIC-06

INFO OCT-01 NEA-10 ISO-00 EB-07 AID-05 TRSE-00 CIAE-00

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC PRIORITY 1685

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

LIMITED OFFICIAL USE ISLAMABAD 7754

E.O. 11652: N/A

TAGS: EFIN, PK

SUBJ: OPIC LOCAL CURRENCY LOANS TO RAFHAN MAIZE

AND PREMIER TOBACCO

REF: STATE 194455

BEGIN SUMMARY: MISSION RECOMMENDS STRATEGY FOR OBTAINING REVERSAL OF GOP DECISION TURNING DOWN PROPOSED OPIC LOCAL CURRENCY LOANS. ACTION REQUESTED: CONSIDER RECASTING PROPOSED MAYS LETTER AND ARRANGING POSSIBLE MEETING BETWEEN MAYS AND VISITNG GOP OFFICIALS IN WASHINGTON IN SEPTEMBER. END SUMMARY.

1. AS DEPARTMENT AND OPIC KNOW, WE SHARE OPIC PRESIDENT MAYS DISAPPOINTMENT OVER THE TURNDOWN OF THE TWO COOLEY LOANS AND WOULD LIKE TO SEE THE GOP REVERSE ITS DECISION IF THIS CAN BE OBTAINED. BUT OBTAINING THIS REVERSAL WILL NOT BE EASY. IF OUR EFFORTS ARE TO HAVE A CHANCE OF SUCCESS, GREAT CARE MUST BE TAKEN THAT THE APPROACH WE MAKE IS THE BEST POSSIBLE ONE UNDER THE CIRCUMSTANCES. WITH THIS IN MIND, WE HAVE REVIEWED THE PROPOSED MAYS LETTER AND BELIEVE THAT SOME ADJUSTMENTS ARE

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ADVISABLE.

2. ONE OF THESE HAS TO DO WITH THE ADDRESSEE. THE LETTER AS GIVEN IS ADDRESSED TO SIRAJ YUSUF KHAN, JOINT SECRETARY, FINANCE MINISTRY. WHILE THIS OFFICIAL WAS THE KEY INDIVIDUAL COORDINATING THE GOP POSITION, THE ACTUAL DECISION MUST HAVE BEEN TAKEN OR APPROVED AT A HIGHER LEVEL AND WE BELIEVE THE INDIVIDUAL INVOLVED THERE WAS PROBABLY FINANCE SECRETARY-GENERAL A.G.N. KAZI. WE THUS RECOMMEND THAT THE LETTER BE ADDRESSED TO KAZI AND BE RECAST ACCORDINGLY. KAZI IS THE SENIOR CIVIL SERVANT BELOW FINANCE AND ECONOMIC AFFAIRS MINISTER MOHAMMAD HANIF, WITH COORDINATING RESPONSIBILITIES OVER THE MINISTRY'S THREE DIVISIONS FOR FINANCE, ECONOMIC AFFAIRS, AND PLANNING. WE ALSO THINK THAT A COMMUNICATION FROM THE PRESIDENT OF OPIC SHOULD MORE APPROPRIATELY GO TO KAZI RATHER THAN TO A JOINT SECRETARY. (MAYS MISSED SEEING KAZI LAST FEBRUARY BECAUSE THE LATTER WAS IN EUROPE AT THE TIME.)

3. IF OPIC CONCURS WITH IDEA OF A LETTER TO KAZI, WE WOULD ALSO PLAN TO SEND COPIES OF IT TO SIRAJ YUSUF KHAN, AND TO OTHER OFFICIALS SUCH AS THE STATE BANK GOVERNOR, INDUSTRIES MINISTRY SECRETARY, ECONOMIC AFFAIRS DIVISION SECRETARY, AND THE FOREIGN AFFAIRS MINISTRY.

4. AS SYR A LETTER TO KAZI, WE SUGGEST THE FOLLOWING TEXT: QUOTE DEAR MR KAZI: THE GOVERNMENT OF PAKISTAN, AS YOU ARE NO DOUBT AWARE, HAS RECENTLY EXLJDYND ITS OBJECTION TO TWO PROPOSED LOCAL CURRENCY LOANS FROM THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) TO RAFHAN MAIZE PRODUCTS COMPANY AND TO PREMIER TOBACCO INDUSTRIES. I AM WRITING TO ASK THAT THIS DECISION BE SYMPATHETICALLY RECONSIDERED.

5. QUOTE OPIC PROPOSED THESE LOANS AS PART OF A GENERAL EFFORT TO ENCOURAGE PRODUCTIVE FOREIGN INVESTMENT IN PAKISTAN IN ACCORDANCE WITH THE GOVERNMENT OF PAKISTAN'S POLICIES AND PRIORITIES FOR FOREIGN PRIVATE INVESTMENT. LOCAL CURRENCY LENDING IS ONE OF THE MEANS BY WHICH LIMITED OFFICIAL USE

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OPIC CAN DO THIS. OPIC ALSO HAS AN ACTIVE INSURANCE PROGRAM AND A FOREIGN CURRENCY LOAN PROGRAM. LOCAL CURRENCY LOANS ARE REGARDED BY PROSPECTIVE AMERICAN INVESTORS AS AN IMPORTANT INCENTIVE, AND WE THOUGHT THAT TWO SUCCESSFUL JOINT VENTURE EXPANSION PROJECTS, ASSISTED IN PART BY OPIC'S RUPEE LOANS, WOULD BE USEFUL NOT ONLY FOR THE ECONOMIC DEVELOPMENT OF PAKISTAN, BUT BE A VALUABLE SIGNAL TO THE FOREIGN INVESTMENT

COMMUNITY THAT PAKISTAN IS A MARKET WORTH INVESTING IN. MY MEETING WITH GOVERNMENT OFFICIALS IN ISLAMABAD AND KARACHI LAST FEBRUARY, AND THE APPROVAL OF THE TWO COMPANIES' PROJECTS BY CIPCOC AND THE ECC, HAD LED US TO BELIEVE THAT LOCAL CURRENCY LOANS FOR THESE PROJECTS IN THE MODEST AMOUNTS PROPOSED WOULD BE FAVORABLY REGARDED BY THE GOVERNMENT OF PAKISTAN.

6. QUOTE. I NOW UNDERSTAND THAT ONE ELEMENT IN THE PAKISTAN GOVERNMENT'S OBJECTION TO THESE LOANS WAS THE CONCERN THAT THEY MIGHT LEAD TO A FURTHER BUILDUP IN THE US-HELD RUPEE BALANCES. I CAN APPRECIATE THIS CONCERN. HOWEVER, THE TOTAL AMOUNT PROPOSED FOR THESE TWO LOANS IS NOT LARGE (RS. 21.7 MILLION), AND THE ANNUAL REPAYMENTS PLUS INTEREST INVOLVED EQUAL ONLY A SMALL PERCENTAGE OF THE ANNUAL GRANTS MADE TO THE PAKISTAN GOVERNMENT FROM THESE RUPEE HOLDINGS. IN PROPOSING THESE, OPIC WAS ALSO UNDER THE IMPRESSION THAT IT WAS PROVIDING A DEVELOPMENTAL BENEFIT TO PAKISTAN AND THESE INDUSTRIES BY OFFERING LONG-TERM FINANCING NOT OTHERWISE AVAILABLE ON FINANCIALLY FEASIBLE TERMS FROM EXISTING PAKISTANI FINANCIAL INSTITUTIONS EXCEPT IN VERY LIMITED AMOUNTS.

7. QUOTE. AS THE U.S. GOVERNMENT AGENCY CHARGED WITH ENCOURAGING AND PUBLICIZING FOREIGN INVESTMENT OPPORTUNITIES ABROAD IN THE COUNTRIES WHICH SEEK SUCH INVESTMENTS, OPIC HAS TRIED TO GIVE PUBLICITY TO THE PAKISTAN GOVERNMENT'S STATEMENTS ABOUT WELCOMING FOREIGN INVESTMENT. INTERESTED PARTS OF THE US BUSINESS COMMUNITY WERE WATCHING THE OUTCOME OF OPIC'S EFFORTS TO REACTIVATE THE LENDING PROGRAM IN PAKISTAN AS A CONCRETE SIGNAL OF THE LIMITED OFFICIAL USE

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GOVERNMENT'S ATTITUDE TOWARD FOREIGN INVESTMENT.

8. QUOTE. I BELIEVE IT WOULD BE ADVANTAGEOUS TO PAKISTAN'S ECONOMY AS WELL AS TO OPIC IF YOUR GOVERNMENT WERE ABLE TO RECONSIDER ITS DECISION. ONCE THESE LOANS WERE APPROVED, WE COULD MAINTAIN A POSITIVE POSTURE TOWARDS ASSISTING INVESTMENT IN PAKISTAN BY SAYING THAT ALL THE OPIC PROGRAMS ARE OPERATIVE.

9. QUOTE. DURING MY RECENT VISIT TO PAKISTAN, I WAS UNABLE TO MEET WITH YOU, AS YOU WERE ABROAD. NOW, I HAVE BEEN INFORMED THAT YOU PLAN TO VISIT WASHINGTON, D.C. IN EARLY SEPTEMBER. I WOULD BE PLEASED IF YOU COULD MEET WITH ME AT THAT TIME. YOURS VERY TRULY, MARSHALL T. MAYS, PRESIDENT OPIC. END QUOTE. END TEXT.

10. KAZI WILL VISIT WASHINGTON FOR THE IBRD/IMF MEETINGS IN EARLY SETEMBER, ACCOMPANIED BY FINANCE MINISTER HANIF, AS WELL AS STATE BANK GOVERNOR GHULAM ISHAQ KHAN AND SIRAJ YUSUF KHAN. WE STRONGLY SUGGEST THAT OPIC DISCUSS WITH DEPARTMENT AND TREASURY OFFICIALS THE USEFULNESS OF PRESIDENT MAYS AND OTHER OPIC OFFICIALS TALKING WITH SOME OR ALL OF THESE VISITING OFFICIALS. SUCH A MEETING COULD BE CRUCIAL IN OBTAINING THE DESIRED REVERSAL.

12. PLEASE ADVISE.
BYROADE

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Message Attributes

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